

PERAC Memorandum # 4/2002

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Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Hedge Funds

DATE: January 18, 2002

Recently the subject of investing public pension funds in so-called “hedge funds” has been the focus of public pension boards and their advisors across the nation. In Massachusetts the Commission has received one recent request for regulatory action in this area and we anticipate a growing interest in the months and years ahead. In order to address the issues in a comprehensive and knowledgeable manner the Commission, through Investment Director Bob Dennis, conducted a study of “hedge fund” investing.

We also commenced the process of soliciting the opinions of a number of public and private investors as to their experience with such investments. That process has not been completed. Consequently, the Commission, at its meeting of January 16, 2002, decided not to approve any exemptions and supplementary regulations relating to “hedge fund” or absolute return investments by retirement boards. As a result no board may invest in such strategies at this time.

The matter has been referred to the PERAC Investment Sub-Committee for continued study over the course of the next six months. In particular, concerns exist with respect to manager risk due to the short track record of these products, the impact of recent cash inflows on returns and portfolio transparency. However, of primary concern is the level of expertise necessary for the proper understanding of the complexities of hedge fund strategies, the risks inherent in investing in them, as well as for the undertaking and implementing of processes for the selection and monitoring of these investments.

The Commission welcomes comments pertaining to the possible investment by the retirement boards in vehicles that employ “hedge fund” strategies. If you wish to contact

the Commission in this regard please forward written material to Investment Director Bob Dennis or e-mail him at Robert.A.Dennis@state.ma.us.